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SIPDIS

DEPARTMENT FOR EUR (DAS KENNEDY) AND EUR/SNEC (AMB. MANN)  
NSC FOR BRYZA

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SUBJECT: RAIL BLOCKADE: TIGHTENING THE NOOSE AROUND ARMENIA

Classified By: Ambassador John M. Evans for reason 1.4 (b) and (d)

SUMMARY

1. (C) For more than twelve years, the blockade of Armenia by Turkey and Azerbaijan has disrupted regional transit corridors. All political considerations aside, regional economic development has been stymied. Recent steps by Azerbaijan to improve the effectiveness of its blockade have tightened the noose. Armenia has a single active international rail crossing, through Georgia. International freight arriving at this point must either arrive via the port of Poti (at significant cost), or through Azerbaijan. Press reports suggest that Azerbaijan is pressing Georgia hard to step up enforcement of agreements which prohibit trans-shipment of cargoes to Armenia. More than 1000 railcars intended for delivery to Armenia, primarily carrying fuel and grain, are now being held in Azerbaijan.

2. (C) The GOAM is feeling the pressure. In addition to the immediate economic pressures of the blockade, a new rail line is under consideration to link the Turkish city of Kars directly to Georgia, bypassing Armenia. The GOAM offered Turkey the use of the rail connection from Turkey to Georgia, even if only for transit purposes. As he prepared for a recent trip to Turkey, President Putin told the press he would argue against construction of this line and the further economic isolation of Armenia.

3. (C) We think the proposed bypass would remove the incentive to develop the economic links which could bridge the political gaps that divide this region. A rail bypass of Armenia would work against U.S. regional goals. End Summary.

ISLAND IN THE STREAM

4. (C) Situated on the historic silk road, less than 200 miles from the busy ports on the Black Sea and 350 miles from the Caspian, Armenia nonetheless faces some of the highest transport costs in the world; a recent World Bank report compares costs as exceeded only by some "African landlocked countries." Azeri and Turkish borders are closed. The road to Iran is steep, narrow, and perilous in winter. Nearly ninety percent of goods (other than diamonds) imported to or exported from Armenia transit Georgia, where they incur high transit costs, both in terms of formal customs fees and also in what the World Bank report charitably termed "informal transit costs."

5. (C) Goods that come to Georgia from the East which transit Azerbaijan must be consigned to Georgia and then resold to an Armenian importer, incurring customs duties and taxes in both Georgia and Armenia. Armenian importers once solved this problem informally with Georgian customs officials. "Under Shevardnaze, we would just fix the paperwork," a senior customs official told us recently, but now Georgian officials are "unfortunately are following the law."

Azerbaijan Steps Up The Pressure

6. (C) Azerbaijan in recent weeks has stepped up the pressure and is reportedly holding more than a thousand rail cars, mostly laden with grain and fuel, at the Georgian border on suspicion that they will be re-consigned to Armenia. According to Deputy Minister of Trade Tigran Davtyan, the goods held are in fact bound for Armenia. Davtyan told us earlier that recent measures by Azerbaijan have caused shortages of aviation fuel in Yerevan, forcing Armenian airlines to stop in Sochi for refueling and driving the price of aviation fuel to more than USD 700 per ton in Yerevan. According to press reports, the Azeri Embassy in Tbilisi has added a new officer whose sole duties are to enforce a CIS agreement which prohibits the improper re-consigning of cargoes.

THE COST TO BUSINESS IS HIGH

7. (C) If the transit through Georgia is costly to

importers, it is prohibitively expensive to businesses seeking to export from Armenia, whose goods -- save polished gems -- tend to be heavy for their value. An American marble importer told us that to bring marble from Armenia to California he pays USD 4,000 per container, opposed to USD 2,000 from across the border in eastern Turkey. Another U.S. company that exports molybdenum from Armenia to Western Europe claims that the trip from Armenia to the Georgian port of Poti is the most expensive part of shipping costs, at USD 1,500 per container. Armenian freight forwarders point out that Georgia levies high transit fees (USD 300 per container plus ecological charges--higher for Armenians than for Azeris, despite the fact that both Georgia and Armenia are members of the WTO. Freight companies also point to high risks due to corruption and poor infrastructure in Georgia. In total, Armenia's balance of payments shows a USD 90 million debit for external freight charges -- more than one third the value of Armenia's total exports excluding precious gems.

#### THE IRON CURTAIN'S REMAINING CHINK

18. (C) In Soviet times the Gyumri-Kars railroad crossing over the Arax river on the eastern Turkish border was the only rail link between the Soviet Union and Turkey. We recently visited the site and were struck by how much it still seems like a scene out of the cold war. Russian border guards still man Armenia's borders with Iran and Turkey and our Armenian hosts had to seek their permission to approach the border post.

19. (C) Today, the rails lie unused. Although idle since 1992, the railway from the border to Gyumri is intact. Three years ago the Armenian Customs Service refinished a building at the border for use as a customs house in the anticipation that the border would open soon. The old Akhurik rail station (five kilometers from the Turkish border) needs new loading and unloading equipment, but the rails are operational. (Armenian trains, like Georgian and other Soviet trains, have a different gauge than Turkish trains. Cargo would have to be transferred from the Turkish trains to Armenian trains at Akhurik.) From Gyumri the current Armenian railroad provides service to Tbilisi.

#### Armenia Seeks to Open Rail Link

10. (C) Armenians are acutely aware of their isolation. Foreign Minister Oskanian and his Deputy Tatoul Markarian told us that Armenia seeks the rehabilitation of existing rail infrastructure through the Caucasus. During a September meeting, the press reported that President Kocharian asked Georgian President Saakashvili to help re-open the rail connection through Abkhazia, thereby providing a railroad link to Russia. Russian Transport Minister Igor Levitin recently announced that Russia agreed to re-open the line through Abkhazia, but we understand this will take more than a year to implement.

11. (C) Markarian told us the GOAM is willing to take bolder steps to encourage the use of the Gyumri-Kars railroad between Armenia and Turkey, including the use of the Armenian rail corridor by Turkey and Georgia without insisting on full normalization of trade ties. Turkish cargoes would be permitted to transit to Georgia. Markarian said Armenia offered to permit rail transit of cargoes bound for Iraq from Turkey and has also offered transit through Armenia for humanitarian goods from Turkey or Azerbaijan to the Azeri enclave of Nakhichevan. Both offers were rejected in favor of maintaining the blockade, he asserted.

12. (C) The governments of Azerbaijan, Georgia and Turkey reportedly made a proposal to the TRACECA (Transport Corridor Europe Caucasus Asia) forum to solicit EU financing to build a new route from Kars to Tbilisi, going around Armenia. Armenia's representative to TRACECA, Gagik Grigorian, told us that the EU's current position on the proposal to build a new railway was to encourage the use of existing rail infrastructure instead. Grigoryan admitted that the realization of the new railway would ultimately be commercially determined, but contrasted the situation from the Baku-Tbilisi-Ceyhan pipeline dispute: "If the demand is there (for cargo from Kars to Tbilisi) the railway already exists. Rather than build a new railroad let's operate the existing system." Russia has already spoken out against the new rail link. In a press interview given in advance of his December 6-7 trip to Turkey, President Putin said that he planned to raise Russia's opposition to the new rail link as it would increase Armenia's isolation and would be a step away from resolving the ongoing conflict.

#### Comment

13. (C) The GOAM sees Azerbaijan's new push to enforce its

blockade in the context of other efforts to force Armenia to concede in negotiations to end the conflict in Nagorno-Karabakh. During a recent visit to Yerevan, Heikki Talvitie, the EU's Special Rep for the South Caucasus, told us that he saw a new pattern of actions by Azerbaijan to isolate Armenia in every way possible, and cited Azerbaijan's efforts to raise N-K at UNGA as an example.

14. (C) However legal Azerbaijan's actions to enforce the blockade may be and however legitimate -- from its view -- its political reasoning is, the economic division of the South Caucasus works against our goal of developing regional stability. While we believe it likely would be counterproductive (and probably pointless) for outside actors to engage any of the players in the current border dispute, we believe it would be a blow to efforts to build regional ties to support a rail bypass of Armenia. Encouraging the use of existing rail infrastructure through Armenia rather than the construction of a new route around could result in a small step towards the rapprochement between Turkey and Armenia.

EVANS